



ISSN (E): 2277-7695
ISSN (P): 2349-8242
NAAS Rating: 5.23
TPI 2023; 12(6): 500-503
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www.thepharmajournal.com

Received: 23-04-2023
Accepted: 30-05-2023

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Price spread and marketing efficiency of tea marketing channels in district Kangra, Himachal Pradesh

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Abstract

The purpose of the study was to identify marketing channels, price spread, marketing margins, and marketing efficiency of tea in Kangra district, Himachal Pradesh, India. The primary data was collected by the survey method. The study focusses on 50 tea farmers. It was conducted in Kangra district, Himachal Pradesh, which has the highest area under cultivation and production in Himachal Pradesh. The selection of channel actors was made using a two-stage stratified random sampling technique. Three major marketing channels identified in the study were-

Channel I: Producer – Factory – Consumer

Channel II: Producer – Commission Agent – Factory – Consumer

Channel III: Producer – Sub Agent – Commission Agent—Factory – Consumer

The farmers had to incur high expenses for transportation, and storage, whereas for other intermediaries in all the channels, transportation, loading/unloading, were the major marketing costs. The marketing efficiency was more of Channel I > Channel II > Channel III. Comparing Channel I, II, and III, it was revealed that the relatively lower marketing efficiency was due to one additional intermediary (a commission agent). The price spread was low in Channel I as the produce was sold to factory directly by the farmer. The total marketing margin was more in Channel III. The Producer's share in consumer rupee is more in Channel I due to a smaller number of middlemen. The paper provides information for selecting the right marketing channels for tea marketing.

Keywords: Marketing cost, marketing efficiency, price spread, producer's share in consumer rupee, tea, and intermediary

Introduction

Tea is known as 'Cha' in the form of name reached Japan, India, Russia, Iran, and Middle East. Tea as a beverage is grown in about sixty-four countries of the world ranging from extreme cold climate of Russia to Hot Tropic in Asia and Africa, but the cultivation is concentrated in Asian countries, which contribute to around 87 per cent of the total world production and then to African countries. Agricultural marketing plays a crucial role not only in stimulating production and computation but also in accelerating economic development. The agricultural marketing system plays an important role in economic development in countries where resources are primarily agricultural. The development of marketing is as important as that of increasing production. Farmers always desire to get a fair price for their farm products. There are three entities involved in the marketing system. They are the producers, the middlemen, and the consumers. The producer, after making a lot of investments and putting in hard labour, would look forward to getting the largest possible returns for this produce. Therefore, aim at balancing the second conflict of interest in such a way that each entity gets a fair deal. The objectives of the present study were to estimate the marketing cost and price spread under various marketing channels and to analyse marketing efficiency and the farmer's share in the consumer's rupee in various marketing channels.

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Fig 1: Palampur Valley tea estate



Fig 2: Freshly picked two leaves and bud

Research Methodology

Sampling design

Multi-stage sampling procedure was adopted for the study to select the ultimate units of the sample's selection of district as the first stage unit, block as the second stage unit, villages as the third stage units and farm holding as the final and ultimate stage units.

Selection of districts

The state comprises 12 districts, among these district, Kangra district was selected purposively for the study of tea for present study.

Selection of block

Out of the 15 blocks of selected district two block Palampur and Baijnath are selected purposely.

Selection of Villages

A list of tea growing villages was obtained from the Tea Board located in Palampur. A list of all the villages in selected block was prepared and 5% villages were selected randomly. In order to select the villages from Block Palampur and Baijnath – Thakurdwara, Bundla, Raipur, Utrala, and Banuri were selected.

Selection of Respondents

A separate list of farmers growing tea of selected villages was prepared along with their holding size. From this list 10% of respondents were selected randomly.

A separate list of farmers growing tea of selected villages was prepared along with their holding size.

Sr. No.	Particulars	Size-Class
1.	Size Group I	Below 1 hectare
2.	Size Group II	1-10 hectare
3.	Size Group III	Above 10 hectares

Thereafter, 10% sample growers were selected by simple random technique from each size group (stratum) in each selected village. Thus 50 tea growers were selected by simple random sampling from all the 5 selected villages.

Analysis of data/analytical tools

Survey method was used for the collection of the primary data. Data was collected by personal interview with the respondents in the well-prepared schedule. Several visits were conducted of different selected areas for the collection of the data. Primary data was collected on the spot with the help of the growers, village heads, block development officers, marketing officers, tea industries and agricultural extension officers. The secondary data was computed from the records of published reports, bulletins, journals, books, records of Tea Board of India (Palampur) and local newspaper.

Period of study

The data will be collected for the year 2021-2022.

Analytical techniques

Several techniques are available for evaluating the marketing. Those techniques have been adopted; they are as follows:

Price-Spread

The producer's share, marketing costs and margins of different middle-men in the marketing of tea crop were worked out for the adopted channels using the formula.

$$P_s = P_f \times 100 / P_c$$

Where; P_s = Producer's share in consumer's rupee

P_f = Price of the produce received by the farmer

P_c = Price of the produce paid by the consumer

Total Marketing Cost (C) = The total cost incurred on marketing of tea by the farmers and the intermediaries involved in the process of marketing was calculated as:

$$C = C_f + C_{m1} + C_{m2} + \dots + C_{mn}$$

Where, C_f = Cost paid by the producer from the produce leave till he sells

C_m = Price incurred by middleman

The Producer's share in consumer's rupee

$$P_s = P_f * 100 / P_r$$

Where, P_f = Price received by the farmer

P_r = Retail price (consumer price)

Marketing Efficiency: The ratio of price paid by the consumer's (total value of goods) to total marketing cost is used as a measure of marketing efficiency.

$$MME = FP \div (MC + MM)$$

Where, MME is the modified measure of marketing efficiency.

FP= Price received by farmers

MC= Marketing cost

MM=Marketing margin

Results and Discussion Marketing channel

Marketing is an integral part of production processes and this process becomes complete when the produce reaches successfully the ultimate consumer. The marketing organizations affect the production incentives through its impact on remunerative prices. From the producer's angle, an efficient system of marketing is the one which ensures maximum return to the growers and minimizes the cost of marketing. Effective marketing strategy, especially for horticulture produce depends mainly on the decision on where, when, how and how much to sell in the market. This ultimately affects the profitability of an enterprise. The study of marketing channels is essential to know the efficiency and effectiveness of various marketing channels as seen from the price spread. The channels identified in the study area were;

Channel I: Producer – Factory – Consumer

Channel II: Producer – Commission Agent – Factory – Consumer

Channel III: Producer – Sub Agent – Commission Agent—Factory – Consumer

Different marketing channels used by the farmer to dispose off their produce. Generally, three channels were found to be adopted by the farmer in the study area. It was observed from the analysis that about 34per cent of the farmers were found to be disposing of the produce through channel I, 38per cent through channel II and 28per cent through channel C on overall basis

Table 1: Marketing Channels used by Size group

SI. No.	Farm Size	Marketing Channels		
		Channel I	Channel II	Channel III
1	Size group I	12	8	2
2	Size group II	-	16	6
3	Size group III	-	-	6
Overall		12	24	14

Table 1 shows the quantity of produce sold by different categories through above marketing channels. The table shows that out of total produce maximum production is disposed off through Channel III which is 90.48 per cent. The maximum production is disposed by Channel III -Producer – Factory – Retailer – Consumer in which the farmer send tea to the factory for processing then farmer send processed tea bags to the retailer present in Kolkata and then to consumer where as in Channel II constitute 9.02per cent to dispose the produce in which the producer sells his green leaf to factory and then after processing tea sold directly to consumer. In Channel I Producer – Consumer the producer prepare tea by using hand method to fold leaf then sun drying the leaf and then directly sold to consumer mostly used by small scale farmer.

Price Spread

The price spread in the context of the present study refers to the difference between the price paid by the tea processing unit and the net price received by the tea growers for an equivalent quality and quantity of green leaf. The grower's share in the price paid by the processing unit depends upon several factors including the type of channel used. The difference between the price paid by the tea growers is directly related to the total marketing costs and total marketing margins.

(i) Cost incurred by producers

In Channel I, producer sold their produce to the consumer through retailer. The total marketing cost incurred by the producer was worked out to be Rs. 59 per kg of bag. In Channel II, producer sold their produce to Commission Agent for processing so the marketing cost borne by the farmers is Rs 38. In Channel III producer send tea for processing unit the cost involved worked out to be Rs 35.

(ii) Cost incurred by Sub Agent

The Sub Agent was found in the marketing Channel III. In Channel III Sub agent spend Rs. 56 in the marketing.

(iii) Cost incurred by Commission Agent

The Commission Agent was found in the marketing Channel II and III. The total marketing cost incurred by the wholesaler was found to be Rs. 105 in Channel II and Rs 97 in Channel III.

Table 2: Marketing Cost incurred in different Channels

SI. No.	Particulars	Channel I	Channel II	Channel III
Cost Incurred by grower				
1.	Transportation Cost	16	-	-
2.	Loading/Unloading Cost	25	-	-
3.	Storage	30	23	22
4.	Wastage	-	-	-
5.	Miscellaneous cost	10	15	13
Sub-total		59	38	35
Cost incurred by sub agent				
6.	Transportation Cost	-	-	28
7.	Loading/Unloading Cost	-	-	14
8.	Storage	-	-	-
9.	Wastage	-	-	-
10.	Miscellaneous cost	-	-	10
11.	Weighment cost	-	-	14
Sub-total		-	-	66
Cost incurred by Commission Agent				
12.	Transportation Cost	-	60	54
13.	Loading/Unloading Cost	-	12	11
14.	Storage	-	-	-
15.	Wastage	-	10	9
16.	Miscellaneous cost	-	10	11
17.	Weighment cost	-	13	12
Sub-total		-	105	97
Total Marketing cost		59	143	198

Table 2 reveal that in channel I there is no middleman the total marketing cost charged on producer is Rs. 59 per bag. The storage cost was more in channel I which is Rs. 30 and loading charges as Rs. 25. In channel II there is one middle man which is commission agent. The total cost charged on Commission agent is Rs. 105 and on producer it is Rs. 38. Commission agent bear large amount on transportation cost and then on weighment cost. In Channel III there are two

middlemen involved i.e., sub-agent and commission agent. Sub agent bear cost of Rs. 66 and commission agent bear cost of Rs.97.

Table 3: Price spread and market efficiency of Tea among the different marketing channels

Particulars	Channel I	Channel II	Channel III
Producer's price (Rs.)	970	890	850
Consumer's price (Rs.)	1129	1273	1388
Price spread	159	240	340
Producer's share in consumer rupee (%)	85.91	69.91	61.23
Total Marketing Cost	59	143	198
Total Marketing margin	100	240	340
Marketing efficiency (%)	6.1	2.32	1.9

The table 3 revealed that highest marketing cost incurred was Rs 198 in Channel III followed by Channel II with cost Rs. 143 and Rs. 59 for Channel I. The price spread was more in Channel III which is Rs. 340 due to a greater number of middlemen, followed by channel II Rs. 240 and in channel I as Rs. 159. The producer's share in consumer rupee was highest in channel I which is Rs. 85.91, in Channel II it was Rs. 69.91 and in Channel III it was Rs. 61.23. The producer's price was highest in Channel I which is Rs. 970, and Rs 890 in Channel II. The Consumer's price is more in Channel III which is Rs. 1388 then in Channel II which is 1273 and in Channel I is Rs. 1129. Channel I is more efficient among the three channels for marketing of tea.

Summary

The three different channels of marketing of tea were identified in the study area.

Channel I: Producer – Factory – Consumer

Channel II: Producer – Commission Agent – Factory – Consumer

Channel III: Producer – Sub Agent – Commission Agent— Factory – Consumer

There were three channels found in each market. The channel I was more efficient than II because producer share in consumer rupee was more (85.91%) in channel I, than channel II (69.91%) in market for Channel III (61.23%). The present investigation was intended to depict the picture of the tea growing enterprise in Kangra District.

Conclusion

The marketing practises followed by the farmers were the assembly of produce and then further processing, grading, withering is done in processing units. The farmers did not carry out the practices like withering, processing, grading effectively; processing was carried out only for home purposes, and the grades were given on the basis of size and shape of tea particles relevant to trade requirement. The total marketing cost, items such as transportation, loading/unloading, storage and weightment charges were observed to be the most important items of the cost. This cost can be minimised through certain measures, like efficient transport facilities and by shorting the distance between market and producer. It also further indicates minimising the commission to be paid by the producers. It is seen that with the increase in farm size, the quality of marketable as well a

marketed surplus increase. It is concluded that the cash requirement of the farmer was comparatively higher. High prices and high commission charges are problems at the marketing level. High cost of pesticides and labour are the constraints at the economic level of tea cultivation and technical level constraints are lack of technical knowledge about identifying diseases and pest of tea. More the number of middlemen involves in the marketing channel more will be the cost of product and less profit to producer.

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